

## Commodity Spotlight



USDA photo

## World Rice Glut Keeps Lid On U.S. Prices

**W**ith record supplies at home and extremely low prices in the global market, the 2001/02 U.S. season-average farm price for rice is projected to be the lowest in 15 years. Despite a bearish price outlook last spring, U.S. rice producers boosted plantings more than 8 percent. At planting, producers estimated returns to rice production—including benefits under the marketing loan program—to be higher than returns from planting alternatives.

Because the U.S. exports more than 40 percent of its rice crop annually, the global rice market has a major effect on U.S. prices. Although accounting for only 1 to 2 percent of global rice production, the U.S. is a major exporter, accounting for about 12 percent of global rice exports. U.S. rice export volumes are very sensitive to the price difference over major competitors, especially Thailand, the world's largest rice exporter.

### *Crop Rotations, Loan Payments Influence Planting Decisions*

Last spring, U.S. farmers planted an estimated 3.3 million acres of rice, up more than 8 percent from a year earlier. The primary rotation crop in the Mississippi Delta—where the bulk of the U.S. rice

crop is produced—is soybeans, with cotton and feed grains competing on a much smaller scale. Along the Gulf Coast and in northern California—where the bulk of the remainder of the U.S. crop is produced—such economically viable crop rotation is more difficult.

Long grain, which typically accounts for more than 70 percent of U.S. rice acreage, made up all of this year's area expansion. Long grain plantings are estimated at almost 2.7 million acres, a 22-percent increase from a year earlier and fractionally below the 1999 record. A 12-percent drop in long grain supplies in 2000/01 gave prices a slight boost last year. Slightly higher prices, plus expectations of substantial marketing loan payments, were behind this year's expanding acreage. Virtually all long grain rice is produced in the South, with Arkansas, Louisiana, Mississippi, Missouri, and Texas accounting for more than 99 percent of southern rice acreage.

In contrast, combined medium/short grain plantings are estimated at 630,000 acres this year, down 26 percent from 2000/01. Last year, medium/short grain supplies were up 18 percent from 1999/2000, a result of a record crop in California and larger production in the South. Medium/short grain accounts for 95 per-

cent of California's rice area; the state produces about two-thirds of the U.S. medium/short grain crop. Arkansas and Louisiana account for nearly all southern medium/short grain production.

Last winter, when final planting decisions were made for the 2001 crop, payments to rice producers under the government marketing loan program exceeded \$3 per cwt, more than half the reported farm price at that time. Under the marketing loan program, when world prices are below the commodity loan rate, eligible producers are entitled to payments equal to the difference between the announced world rice price (as calculated by USDA) and the national average loan rate for rough rice, which is fixed at \$6.50 per cwt. By August, marketing loan payments exceeded \$3.50 per cwt for all classes of rice. With little price strength expected in the world rice market, marketing loan payments will remain a major component of producer returns in the near future.

The combination of a record crop, higher carry-in, and larger imports is forecast to boost total rice supplies in 2001/02 to a record 247.6 million, up 8 percent from a year earlier. Total U.S. rice production is projected at a record 208.2 million cwt in 2001/02, up 9 percent from a year earlier. The larger crop is the product of both expanded acreage and a higher yield. The average yield, estimated at a record 6,328 pounds per acre, is almost 1 percent above a year earlier.

Long grain accounts for all of the production increase. Long grain production is projected at a record 161 million cwt, up 25 percent from a year earlier. In contrast, combined medium/short grain production is projected at 47 million cwt, down 24 percent from a year earlier.

Beginning stocks of all rice, estimated at 28.4 million cwt, are up almost 4 percent from a year earlier. Imports, projected at a record 11 million cwt, are up more than 1 percent from 2000/01.

Long grain supplies are projected at almost 182 million cwt, a record and up 19 percent from 2000/01. Long grain prices are likely to be under substantial price pressure this year. In contrast, medium/short grain supplies are projected to

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drop almost 14 percent to less than 65 million cwt.

### Long-Term General Contraction In U.S. Rice Prices

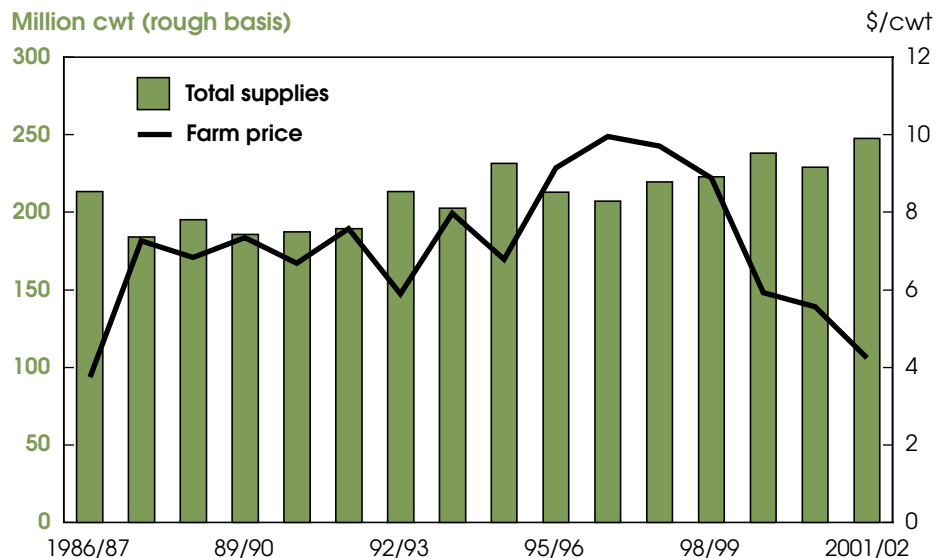
U.S. rice prices, primarily for long grain (the dominant U.S.-grown class), had begun to drop early in the 1997/98 (August-July) market year, a result of both larger supplies at home and tumbling global prices. International rice prices were under severe pressure from the fallout of the Asian financial crisis that began in June 1997. In the U.S., milled prices reported the sharpest drop in the second half of 1997, while rough prices were supported by strong shipments to regular buyers, primarily Mexico and Central America.

In 1998, the collapse of global trading prices was cushioned—and at times even reversed—by record world trade, the result of severe crop damage from *El Niño* in Southeast Asia and South America. While the U.S. accounted for only a small share of Southeast Asia's record imports, it was the primary supplier of South America's record rice imports in 1998. However, for the U.S., the price-cushioning effect was stronger for rough rice, which accounted for the bulk of South America's rice imports from the U.S. that year.

For both the U.S. and global rice markets, the support for prices was brief. In the global market, prices began to drop at a faster pace early in 1999 because trade contracted as production recovered in major importing countries and exporters harvested bumper crops. With the last of the U.S. *El Niño* exports shipped by the start of 1999 and with U.S. producers indicating 1999 plantings at more than 3.5 million acres—second only to the 1981 record of 3.8 million—both rough and milled U.S. rice prices began to drop sharply by spring 1999.

For U.S. medium grain rice—grown mostly in California—the situation in 1998/99 was quite different, as California's production dropped 26 percent from a year earlier. Prices for both rough and milled medium grain rice rose throughout the 1998/99 market year. By July 1999, California medium grain milled rice was quoted at

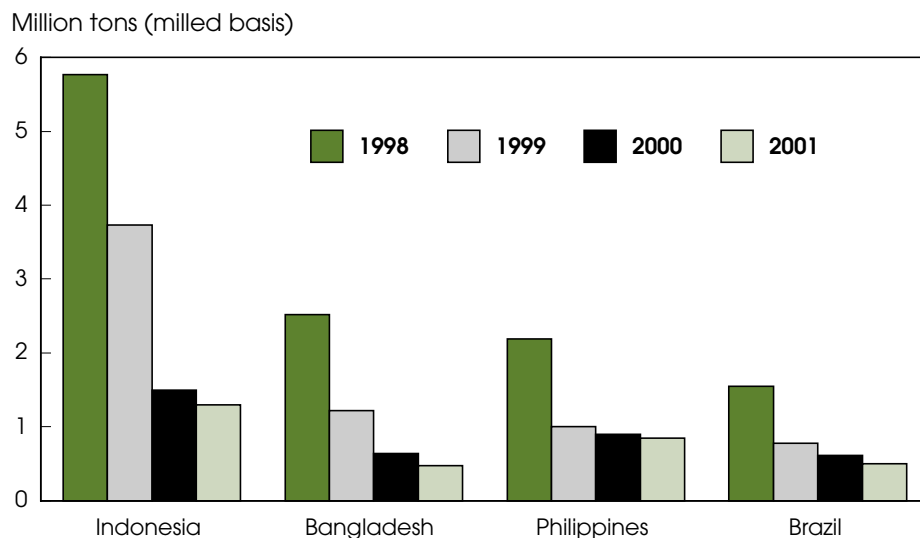
### U.S. Season-Average Farm Price for Rice to be Lowest Since 1986/87



2001/02 projected.

Economic Research Service, USDA

### Imports by the Major Global Rice Buyers Are Down Substantially from 1998 Records



2001 projected.

Economic Research Service, USDA

\$518 per ton, up more than \$115 from a year earlier and more than \$185 per ton higher than southern long grain. By September 1999, California medium grain prices began to drop in response to a larger crop, weaker global prices, and steady drop in U.S. long grain prices.

In 1999/2000, U.S. rough and milled prices for both long and medium grain rice declined, a result of then-record U.S. supplies and a continued drop in global prices. In fact, the U.S. season-average farm price (rough rice) dropped more than a third in 1999/2000, the largest per-

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**Program Payments Critical to U.S. Rice Producers**

In market year 2000/01, direct government payments to rice producers totaled almost \$1.5 billion, more than 40 percent larger than the total market value of rice production that year. Under the 1996 Farm Act, the primary government programs affecting rice producers are production flexibility contract payments and marketing loans. Rice farmers also benefit from subsidized crop and revenue insurance as well as from trade promotion programs, food aid, and export credit guarantees.

An important feature of the 1996 Farm Act was planting flexibility, which allows farmers to plant almost any crop on their contract acreage without losing benefits. For the 1996-2002 crops, producers who participate in the production flexibility contract (PFC) program receive specified payments that are not linked to current production or prices of the contract commodity. In 2000/01, PFC payments to rice contract holders totaled \$443 million, yielding a \$2.60-per-cwt payment rate.

The marketing loan program is designed to provide assistance to producers when world prices are low. The program uses the difference between the announced weekly world rice price (as calculated by USDA) and the national average per-unit commodity loan rate for rough rice, which is fixed at \$6.50 per cwt. To achieve this national average rate, separate loan rates are calculated for each grain type, based on historic average milling yields. Government payments are available to producers when the world price falls below the loan rate. These payments are referred to as marketing loan benefits. By the end of the 2000/01 market year, the marketing loan payment rate exceeded \$3.50 per cwt for all classes of rice. This compares with a season-average farm price of \$5.56 per cwt.

As a result of low commodity prices, in 1998 Congress authorized supplemental payments for individuals eligible for PFC payments, which have been termed "market loss assistance" (MLA) payments. For the 1998 crop, PFC contract holders received additional payments equal to approximately 50 percent of that year's PFC payment rate of \$2.92 per cwt. In 1999 and 2000, contract holders received supplemental payments equal to the 1999 PFC payment rate. This year, the payment rate is 85 percent of last year's.

centage decline since 1986/87. Global prices remained under pressure from weaker trade.

In 2000/01, despite a smaller crop and tighter domestic supplies, U.S. prices for all classes of rice continued to drop as global prices collapsed to a 15-year low by the spring of 2001 and California harvested a record crop. Global prices remained under pressure from weakening trade and bumper crops in major exporting countries. Last April, Thai 100-percent grade B averaged \$170 per ton, the lowest monthly price in almost 28 years. From May through October 2001, global prices rose only fractionally—the longest period of sustained prices below \$180 per ton since the early 1970s.

This year, U.S. prices are under even more pressure. In 2001/02, U.S. rice sup-

plies are projected at a record 248 million cwt. And despite rising domestic use and larger exports, U.S. ending stocks are projected to increase 43 percent to nearly 41 million cwt, the largest since 1986/87. Barring a major weather problem somewhere, there is little expectation of any price strength this year or next in the U.S. or global rice markets.

Prices for U.S. milled rice have declined as well in 2001/02. High-quality Texas long grain was quoted at \$243 per ton in mid-October, down \$30 from a year earlier and the lowest in more than 14 years. Medium grain prices have dropped even further. In early September, high-quality California medium grain milled rice was quoted at \$220 per ton, down 50 percent from June 2000 and the lowest in more than 25 years. However, by early October medium grain prices had risen to \$287 per

ton in response to expectation of a smaller California crop.

***U.S. Faces Stiff Competition In Global Rice Market***

Despite record supplies and lower prices, U.S. rice exports are projected to increase just 3 percent in 2001/02 to 86 million cwt (rough basis). Large exportable supplies in major exporting countries and extremely low international prices will limit the U.S. export gain. Rough rice exports are projected at 23 million cwt, virtually unchanged from 2000/01, and milled rice (including brown rice) at 63 million, up almost 3 million from a year earlier. The U.S. is the only major exporter that ships rough rice. The top Asian exporters do not allow rough rice exports, preferring to capture the added value from milling.

Long grain exports are projected at 70 million cwt, up more than 7 percent from a year earlier. Driving that forecast are much larger supplies and lower prices. The top markets for U.S. long grain rice are Mexico, Central America, the European Union (EU), Canada, South Africa, and Saudi Arabia. The U.S. currently faces little competition from Asian exporters in Mexico and Central America; both take mostly rough rice and bar Asian rice for phytosanitary reasons. However, in the milled and brown rice markets—the EU, South Africa, Saudi Arabia, and Canada—the U.S. faces stiff competition from Asian exporters.

Medium/short grain exports are projected to drop 11 percent to 16 million cwt. Japan, Turkey, and Jordan are the top markets for U.S. medium/short grain rice. While Japan and Jordan take milled and brown rice, Turkey imports mostly rough rice from the U.S. Australia, Egypt, China, and Italy are major competitors in the global medium/short market.

Global rice trade has dropped every year since 1998, a major factor in declining prices, and is projected to be flat in 2002. From its record 27.7 million tons in 1998, global rice trade dropped 10 percent in 1999 to 24.9 million tons. By 2001, global rice trade had declined to 22.4 million tons, 19 percent below 1998. Weaker import demand has accounted for all of

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### Boiling Down Rice Terminology

Rice is traded in many forms, according to stage of milling, quality, and type.

**Stage of Milling:** *Rough rice*—sometimes referred to as *paddy rice*—is harvested rice as it comes from the field with both the outer hull (or shell) and bran layer still attached. The hull accounts for about 20 percent of the weight of rough rice while the bran layer accounts for around 10 percent. Once the hull is removed the rice is referred to as *brown rice*. Brown rice has a nutty flavor and takes longer to cook than fully milled rice. Once the bran layer is removed the rice is referred to as fully milled or *white rice* or *polished rice*.

The bulk of global rice trade is milled or brown rice. The U.S. is the only major exporter of rough rice. None of the major Asian exporters ship significant quantities of rough rice, preferring to profit from the value added by milling. South American exporters often ship small amounts of rough rice, mostly within Latin America.

**Quality:** Quality refers to many aspects of rice including: percent broken, uniformity of appearance, and degree of milling. When rice is milled, some of the kernels break, and these kernels are referred to as broken. Generally, the higher the percentage broken (or conversely, the smaller the percentage head—or unbroken—rice), the lower the price. For example, Thai 5-percent broken sells at a higher price than Thai 35-percent broken. The more uniform the appearance of rice, the higher the price. In other words, rice is discounted for damaged kernels, chalkiness, and inclusion of foreign matter. Finally, the higher the degree of milling—i.e. the more of the bran layer removed—typically the higher the price.

**Type:** Four basic types of rice are produced and traded globally.

- *Indica* rice accounts for more than 75 percent of global trade and is grown mostly in tropical and subtropical regions. Indica rice cooks dry and separate.
- *Japonica* rice, typically grown in regions with cooler climates, accounts for about 12 percent of global rice trade. Japonica cooks moist and sticky.
- *Aromatic* rice, primarily jasmine from Thailand and basmati from India and Pakistan, accounts for almost 12 percent of global trade and typically sells at a premium in world markets.
- *Glutinous* rice, grown mostly in Southeast Asia and typically used in desserts and ceremonial dishes, accounts for most of the remainder.

In the U.S., long grain is typically indica rice while the medium and short grains are typically japonica. Long grain rice, grown almost exclusively in the South, accounts for two-thirds to three-fourths of U.S. production. Medium grain, grown both in California and the South, accounts for 20 to 30 percent of total U.S. production. California grows more than two-thirds of the U.S. medium grain crop, while Arkansas and Louisiana account for almost all southern medium grain production. Short grain rice, grown mostly in California, accounts for about 1 percent of total U.S. production.

the decline. Major exporters, except for China, have produced record or near-record crops every year since 1998/99.

In 1998, record imports by several countries whose crops were severely damaged by *El Niño* pushed global trade up 47 percent from a year earlier. Indonesia imported 5.8 million tons (the largest amount of rice imported by one country), the Philippines 2.2 million, Bangladesh 2.5 million, and Brazil almost 1.6 million. These four countries were the largest rice importers in 1998, accounting for almost 44 percent of global imports. Record imports led to substantial stock buildups in each country.

Most major rice exporting countries have harvested record and near-record crops since 1998/99, a major factor behind the steady decline in global rice prices after the 1997/98 *El Niño*. The only exception

is China, where production dropped sharply in 2000/01 and 2001/02, a result of policies aimed at reducing production of lower quality rice. Even with smaller production, China has more than enough rice to remain a significant exporter.

Thailand and Vietnam are the world's two largest rice exporting countries, shipping primarily indica or long grain rice. Thailand accounts for almost 30 percent of global rice trade, Vietnam 18 to 20 percent. Production in both countries has risen sharply since 1998/99, with record crops projected for each in 2001/02. Thailand is considered a major U.S. competitor in the EU, the Middle East, and South Africa. Vietnam exports primarily medium- and low-quality rice to the Middle East, Africa, and Southeast Asia.

India and Pakistan export both low-quality long grain rice and their premium basmati rice—a popular aromatic—to the EU, Middle East, and U.S. India currently accounts for less than 5 percent of global trade, as India's internal pricing policy makes non-basmati rice uncompetitive in most markets. However, since late May, India has provided subsidies on exports of certain grades of rice, making India competitive in these markets, primarily parboiled rice to West Africa. In addition, India has more than ample supplies and could export substantially more if global prices were to rise above its support levels. Except for 2000/01, India has produced back-to-back record crops since 1996/97.

Although drought cut Pakistan's 2000/01 and 2001/02 production, its 2001 exports



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are projected to be a record. Pakistan accounts for 8 to 9 percent of global trade.

China and the U.S. are the only two major exporters, shipping both indica and japonica (medium/short grain) rice. China accounts for about 8 to 9 percent of global rice exports, shipping high-quality medium/short grain to Japan and low-quality long grain to Africa, Southeast Asia, and Cuba. China has more than ample supplies of rice to substantially expand exports, if global prices were higher. However, much of this rice is low quality. The U.S. accounts for about 12 percent of global exports, down from 24 percent two decades ago. Despite record supplies, a substantial price difference over Asian exporters severely limits U.S. export levels. U.S. rice is typically competitive if the price difference over Thai rice is \$50 per ton or less. In September the difference was \$65 per ton.

Except for parts of the Middle East, nearly all major importing countries have harvested record or near-record crops since 1999/2000. This has been especially true for some of the biggest importers: Indonesia, the Philippines, Bangladesh, and Brazil. The combination of large stocks and successive bumper crops has been responsible for a steady decline in imports by these top buyers. While total imports by these four was more than 12 million tons in 1998, their combined imports are

projected at a mere 3.1 million tons this year, just 14 percent of global imports.

The decline in global trade since 1999 has been limited by record imports by Iran and Iraq. Both countries have experienced severe drought since 1999/2000, cutting production more than 40 percent in each country. Imports have averaged more than a million tons a year for each country since 1999, putting Iran and Iraq behind only Indonesia as rice importers since 2000. Nigeria, averaging almost a million tons of rice imports a year, is the next largest import market for rice. Rice production is stagnant in Nigeria, the largest rice consuming country in Sub-Saharan Africa.

Over the long term, with large and growing populations and high per capita rice consumption, Indonesia, the Philippines, and Bangladesh are projected to increase rice imports as stock levels decline. Imports by Iraq, Iran, and Nigeria are expected to continue rising over the next decade as well, as production gains fail to match rising consumption. In Brazil, however, barring a major weather problem, declining per capita rice consumption will limit future import growth. On balance, global rice trade is expected to slowly expand over the next decade, eventually adding price strength to the international market. **AO**

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### November Releases—National Agricultural Statistics Service

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

#### November

- 1 Dairy Products Prices (8:30 a.m.)  
Poultry Slaughter
- 4 Dairy Products  
Egg Products  
Crop Progress (4 p.m.)
- 5 Weather – Crop Summary (noon)
- 6 Broiler Hatchery
- 8 Dairy Products Prices (8:30 a.m.)  
Milkfat Prices (8:30 a.m.)
- 12 Cotton Ginnings (8:30 a.m.)  
Crop Production (8:30 a.m.)  
Crop Progress (4 p.m.)
- 13 Weather – Crop Summary (noon)  
Broiler Hatchery
- 14 Turkey Hatchery
- 15 Dairy Products Prices (8:30 a.m.)  
Cattle on Feed  
Farm Labor  
Milk Production
- 18 Crop Progress (4 p.m.)
- 19 Weather – Crop Summary (noon)
- 20 Broiler Hatchery  
Cold Storage
- 21 Monthly Agnews
- 22 Dairy Products Prices (8:30 a.m.)  
Milkfat Prices (8:30 a.m.)  
Catfish Processing  
Chickens and Eggs  
Livestock Slaughter
- 25 Cotton Ginnings (8:30 a.m.)  
Crop Progress (4 p.m.)
- 26 Weather – Crop Summary (noon)
- 27 Agricultural Prices  
Broiler Hatchery  
Monthly Hogs and Pigs  
Peanut Stocks and Processing
- 29 Dairy Products Prices

### Rice Yearbook

- \* Domestic and international coverage of the rice market
- \* A wealth of statistics on supply, demand, prices, and trade

Summary available November 29

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